

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 PA-03 PRS-01

USIA-15 CIAE-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 AGR-20 L-03 H-03 RSR-01 /191 W

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R 270112Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3582

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 03 LONDON 09803

DEPARTMENT FOR FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 24

BEGIN SUMMARY: STERLING'S HIGH FOR THE WEEK AGAINST THE DOLLAR, \$2.48125, WAS ON MONDAY AFTER WHICH STERLING MOVED STEADILY DOWNWARD TO CLOSE ON THURSDAY AT \$2.4580.

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STERLING'S TRADE-WEIGHTED DEVALUATION AGAINST SMITHSONIAN

RATES RANGED BETWEEN 16.66 PERCENT AND 17.00 PERCENT THIS WEEK. THE PRICE OF GOLD ROSE TO \$109 ON MONDAY (AUGUST 20) BUT MOVED BACK TO \$99 ON THURSDAY (AUGUST 23). THE CLEARING BANKS ALL RAISED THEIR BASE LENDING RATES THIS WEEK TO 11 PERCENT, THE HIGHEST LEVEL YET. THE UK MONEY SUPPLY ROSE SHARPLY IN JULY CONFIRMING THAT THE SLOWDOWN IN MAY WAS SOMETHING OF AN EXCEPTION. UNEMPLOYMENT IN GREAT BRITAIN STANDS AT ABOUT 600,000 OR 2.5 PERCENT. THE RETAIL PRICE INDEX IN JULY SAW THE SMALLEST MONTHLY RISE SINCE THE GOVERNMENT INSTITUTED ITS WAGE AND PRICE FREEZE LAST NOVEMBER. LATEST FIGURES FOR CONSUMER SPENDING IN THE SECOND QUARTER SHOW A DROP OF 3 PERCENT COMPARED TO THE FIRST QUARTER. AVERAGE EARNINGS ROSE IN THE SECOND QUARTER BY NEARLY 5-1/2 PERCENT. THE COMMITTEE ON INVISIBLE EXPORTS SEES BRITAIN'S INVISIBLES EARNINGS AS LIKELY TO RISE BY 400 MILLION POUNDS TO 450 MILLION POUNDS THIS YEAR APART FROM ANY INCREASE CAUSED BY THE DEPRECIATION OF THE POUND IN RECENT WEEKS. AFTER THE LATEST MEETING BETWEEN THE TUC AND THE GOVERNMENT ON THURSDAY, THE CHANCELLOR SAID THE GOVERNMENT HAD NO PLANS AT PRESENT TO CURB DEMAND OR TO INTRODUCE AN AUTUMN BUDGET. END SUMMARY

1. STERLING TRADED BETWEEN \$2.48125 (AUG 20) AND \$2.4580 (AUG 23) THIS WEEK. WHILE STERLING HAS CONTINUED TO FALL SLIGHTLY AGAINST THE DOLLAR (IT LOST 25 POINTS BETWEEN THIS THURSDAY AND LAST), IT HAS MAINTAINED ITS STRENGTH AGAINST OTHER MAJOR CURRENCIES. THE TRADE-WEIGHTED DEVALUATION OF THE POUND HAS REMAINED RELATIVELY STABLE AND WAS 16.74 PERCENT THIS THURSDAY, COMPARED TO 16.52 LAST THURSDAY. GOLD ROSE TO \$109 ON AUGUST 20, BUT FELL BACK OVER THE REST OF THE WEEK TO CLOSE AT \$99 ON AUGUST 23.

2. ON TUESDAY, LLOYD'S BANK TOOK THE LEAD IN RAISING THEIR BASE LENDING RATE TO 11 PERCENT. ON WEDNESDAY, ALL THE OTHER CLEARING BANKS FOLLOWED SUIT. THIS MEANS THAT ALL THE MAJOR BRITISH BANKS ARE NOW CHARGING "BLUE CHIP" INDUSTRIAL AND COMMERCIAL CUSTOMERS A MINIMUM OF 12 PERCENT ON THEIR OVERDRAFTS, WITH RATES RANGING FROM 12-1/2 TO 15 PERCENT FOR MOST BUSINESS CUSTOMERS, AND UP TO 16 UNCLASSIFIED

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PERCENT FOR PERSONAL BORROWERS. INTEREST RATES PAID ON DEPOSIT (SAVINGS) ACCOUNTS BY THE CLEARING BANKS NOW STAND AT 9-1/2 PERCENT. THE PRESSURE ON THE CLEARING BANKS TO RAISE THEIR RATES CAME FROM THE HIGH RATES IN THE MONEY MARKETS (20 PERCENT FOR 7 DAY MONEY). SOME CORPORATE TREASURERS HAVE BEEN TAKING ADVANTAGE OF THE ARBITRAGE SITUATION CREATED BETWEEN OVERDRAFT RATES AND MONEY MARKET RATES.

3. IN THE PERIOD OF MID-JUNE TO MID-JULY, M1 GREW BY 280
MILLION POUNDS (S.A.) OR 2-1/4 PERCENT AND M3 BY 1080
MILLION POUNDS (S.A.)-ABOUT 4 PERCENT. THE PERCENT
CHANGES OVER THE LAST THREE MONTHS ON AN ANNUAL BASIS
HAVE BEEN ABOUT 15.6 PERCENT FOR M1 AND 31.2 PER-
CENT FOR M3. AMONG THE SEVERAL SPECIAL FACTORS AFFECTING
THESE FIGURES WERE: (1) THE HEAVILY OVERSUBSCRIBED NEW
ISSUE BY SAINSBURY'S WHICH MEANT THE DEPOSITS OF
RECEIVING BANKS WERE SWOLLEN BY AN ESTIMATED 400 MILLION
POUNDS PLUS OF UNSUCCESSFUL APPLICATION MONEY IN THE
PERIOD JUST PRIOR TO THE DATE THE JULY STATISTICS ARE
GATHERED; AND (2) THE VARYING INCIDENCE OF HALF-YEARLY

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PRS-01 USIA-15 CIAE-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 AGR-20 RSR-01 /191 W

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R 270112Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3583

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

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CHARGES AND INTEREST IN TIMES OF WIDE FLUCTUATIONS IN
INTEREST RATES WHICH MAKES SEASONAL ADJUSTMENT OF THE
FIGURES PARTICULARLY UNCERTAIN.

4. UNEMPLOYMENT FELL TO 570,711 OR 2.5 PERCENT OF THE
LABOR FORCE IN THE PERIOD TO MID-AUGUST. THIS IS THE
LOWEST NUMBER OF PEOPLE OUT OF WORK SINCE JULY, 1970 AND
REPRESENTS A REDUCTION OF 34 PERCENT IN THE UNEMPLOYMENT
LEVEL SINCE AUGUST LAST YEAR. UNFILLED VACANCIES HAVE
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RISEN TO THEIR HIGHEST LEVEL SINCE JULY, 1955. SOME
REGIONS SHOW MARKED EVIDENCE OF OVERHEATING, WITH UN-
FILLED VACANCIES RUNNING AT TWICE THE LEVEL OF REGISTERED
UNEMPLOYMENT.

5. THE RETAIL PRICE INDEX IN JULY WAS 179.7
COMPARED TO 178.9 IN JUNE AND 178.0 IN MAY (JANUARY 1962
-100). WHILE THIS IS THE SMALLEST MONTHLY INCREASE SINCE
NOVEMBER, RETAIL PRICES ARE 9.4 PERCENT HIGHER THAN A
YEAR AGO. A SEASONAL FALL IN SOME FOOD PRICES CONTRIB-
UTED TO THE SMALLER INCREASE.

6. NEW GOVERNMENT ESTIMATES ON CONSUMER SPENDING PUT THE
TOTAL AT 6,560 MILLION POUNDS FOR SECOND QUARTER 1973
(CONSTANT PRICES, S.A.). THIS REPRESENTS A FALL IN REAL
TERMS OF 3 PERCENT FROM THE FIRST QUARTER. WHILE THE
UNDERLYING TREND DURING THE FIRST HALF OF THE YEAR STILL
REMAINS UNCLEAR, THE VOLUME OF CONSUMER SPENDING IN FIRST
HALF 1973 WAS 2 PERCENT UP ON SECOND HALF 1972 AND 6
PERCENT UP ON FIRST HALF 1972. MUCH OF THE DECREASE
BETWEEN THE FIRST AND SECOND QUARTERS CAN BE ATTRIBUTED
TO THE FALL BACK IN RETAIL SALES (PARTICULARLY IN APRIL
AND MAY) FOLLOWING THE PRE-VAT SPENDING IN THE FIRST
QUARTER.

7. AVERAGE EARNINGS ROSE ALMOST 5-1/2 PERCENT IN THE
SECOND QUARTER. BETWEEN MAY AND JUNE, AVERAGE EARNINGS
ROSE BY 1.5 PERCENT TO A POINT WHERE THEY ARE ABOUT 15.2
PERCENT ABOVE A YEAR AGO, COMPARED TO 14.3 PERCENT IN MAY
AND 13.4 PERCENT IN APRIL. THE INDEX NOW STANDS AT 151.7
(JANUARY 1970=100). BASIC WEEKLY WAGE RATES ARE
UP 15.4 PERCENT OVER LAST JULY. SINCE NOVEMBER EARNINGS
HAVE RISEN BY 6.5 PERCENT (I.E., THROUGH JUNE), WAGE

RATES BY 6.9 PERCENT (JULY), AND RETAIL PRICES BY 6.1 PERCENT (JULY), ILLUSTRATING THAT WAGES ARE ONLY GOING UP marginally faster than prices.

8. THE COMMITTEE ON INVISIBLE EXPORTS SUGGESTS A RISE IN EARNINGS FROM PRIVATE SERVICES OF 400 MILLION POUNDS - 450 MILLION POUNDS IN 1973. THIS INCREASE DOES NOT COVER THE DEBIT SIDE OF THE PRIVATE ACCOUNT OR GOVERN-
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MENT SPENDING OVERSEAS, BUT IT DOES NOW LOOK AS IF THE INVISIBLES BALANCE WILL IMPROVE IN SPITE OF EC BURDENS. A FURTHER IMPROVEMENT IN EARNINGS IS LIKELY AS A RESULT OF THE DEPRECIATION OF STERLING, SINCE MANY OVERSEAS CONTRACTS -- AS WELL AS RECEIPTS OF INTEREST, PROFITS AND DIVIDENDS -- ARE DENOMINATED IN FOREIGN CURRENCIES WHICH HAVE APPRECIATED.

9. THE TUC AND THE GOVERNMENT MET AT CHEQUERS ON AUGUST 23. THE CHANCELLOR WAS QUITE OPTIMISTIC ABOUT THE COUNTRY'S ECONOMIC PROSPECTS AND MADE CLEAR THAT HE EXPECTS TO ACHIEVE THE 5 PERCENT RATE OF EXPANSION OVER THE 18-MONTH PERIOD (SECOND HALF 1972 TO FIRST HALF 1974) BY A RATE HIGHER THAN 5 PERCENT IN THE FIRST HALF, FOLLOWED BY A LOWER RATE IN THE SECOND PART. WHILE HE SAID HE WAS READY TO ACT TO EFFECT DEMAND AT ANY TIME OF THE YEAR, AND IN EITHER DIRECTION, IF THE SITUATION SHOULD WARRANT IT, THE CHANCELLOR SAID "BUT ON PRESENT FORM I SEE NO NEED FOR ACTION." THE TUC WAS A BIT DISAPPOINTED AT THE OUT COME OF THE TALKS AND CONTINUE TO STRESS THE NEED TO REINTRODUCE FREE COLLECTIVE BARGAINING AND SUBSIDIES FOR FOOD PRICES.

10. THE FORWARD DISCOUNT ON STERLING WIDENED DURING THE WEEK UNTIL WEDNESDAY AND THEN NARROWED ON THURSDAY.

	8/16	8/23	CHANGE
1 MONTH	1.15	1.00	DOWN 0.15
3 MONTHS	3.10	2.90	DOWN 0.20

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PRS-01 USIA-15 CIAE-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 AGR-20 RSR-01 /191 W

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R 270112Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3584

INFO AMEMBASSY BERN

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	8/16	8/23	CHANGE
6 MONTHS	5.05	4.90	DOWN 0.15

(ALL FIGURES IN CENTS)

11. LOCAL AUTHORITY DEPOSIT RATES FELL BACK ON FRIDAY (AUG 17) BUT MOVED STEADILY UPWARD AT ONE-MONTH AND THREE MONTHS, AND IN A MIXED FASHION AT 6 MONTHS, THIS WEEK.

	8/16	8/23	CHANGE
1 MONTH	13-1/4	14-7/8	UP 1-5/8

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3 MONTHS	13-3/16	14-1/2	UP 1-5/16
6 MONTHS	12-3/4	13-7/16	UP 11/16

12. EURO-DOLLAR RATES CONTINUED TO MOVE IN A MIXED

PATTERN, BUT WERE SOMEWHAT HIGHER WHEN COMPARED
TO LAST THURSDAY'S RATES.

	8/16	8/23	CHANGE
1 MONTH	10-7/8	11-7/8	UP 1
3 MONTHS	11-1/8	11-3/8	UP 1/4
6 MONTHS	11-1/8	11-1/2	UP 3/8

13. GOLD CLOSED AT \$99.00 ON THURSDAY, DOWN \$1.50 FROM
LAST THURSDAY'S CLOSE.

14. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2
PERCENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 27 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON09803
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730817/aaaaamkc.tel
Line Count: 345
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 06 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Aug-2001 by reddocgw>; APPROVED <16-Aug-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 24 BEGIN SUMMARY: STERLING'S HIGH FOR THE WEEK AGAINST THE
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005